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SUBJECT: Honduras: 2002 Preliminary Macroeconomic Update

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MACROECONOMIC OVERVIEW

[1](#)1. The Honduran economy grew at a rate of 2.5 percent in 2002, similar to its 2.6 percent growth rate in 2001. Since the population growth rate is approximately 2.6 percent, Honduras has enjoyed essentially zero real per capita economic growth over the last two years. Major factors influencing the Honduran economic performance were the slow international (especially the U.S.) economy, the continuing coffee crisis, and low international prices for other export products.

[1](#)2. According to the Consumer Price Index, the inflation rate in 2002 was 8.1 percent, similar to the inflation rate for the last two years and compatible with the GOH's goal of maintaining the inflation rate at a stable and acceptable level. The Central Bank continued to depreciate the nominal exchange rate of the lempira by 6 percent against the dollar in 2002, in order to maintain purchasing power parity with the United States. Interest rates fell by a percentage point during the year. The minimum wage increased by 12 percent for workers in small agriculture, but approximately nine percent for most other workers, more than compensating for the rate of inflation.

[1](#)3. Net international reserves reached USD 130.5 at the end of 2002, USD 10 million higher than expected. This level was equivalent to 3.8 months of imports.

[1](#)4. Monetary policy was oriented to maintenance of a stable exchange rate and to maintain a normal functioning of the payment system. Open market operations were the principal instruments used. The Central Bank uses an auction system to regulate the allocation of foreign exchange.

[1](#)5. There was a positive flow of net transfers during the year, due to an increase in family remittances, but the current account showed a deficit of USD 243 million. The commercial deficit in 2002 reached USD 1.4 billion. There was also a decrease in direct investment and net long-term loans to the official sector that decreased the balance of the capital account as well.

[1](#)6. During 2002, the balance of the public external debt was

USD 4.4 billion, 5.7 percent higher than the amount owed at the end of 2001. The GOH continues its policy of taking on only foreign concessional loans for projects of high priority.

17. After adopting a series of austerity and tax measures, the GOH closed 2002 with a central government fiscal deficit of Lps. 5.7 billion (USD 345 million) which represents 5.2 percent of the GDP, down from the six percent registered in 2001. The financing of this deficit came mostly from foreign loans.

Source: Technical Unit, Ministry of the Presidency, and BCH, data published July 2003.

ECONOMIC ACTIVITY

18. According to GOH data, economic growth in 2002 was 2.5 percent, slightly less than the rate of 2.6 percent observed in 2001. Honduras' growth was the highest of the Central American countries, except for Costa Rica. The increase in agricultural activity was 4.8 percent due to an increase in corn production (22 percent), rice (21.2 percent), and beans (43.8 percent). The production of banana and sugar cane declined due to labor conflicts in one of the most important banana producing companies and bad weather conditions that affected sugar production in the south-central part of the country.

GDP REAL GROWTH RATE

(Percent)

1997	5.1
1998	2.9
1999	-1.9
2000	5.2
2001	2.6
2002	2.5

GDP BY ECONOMIC ACTIVITY: PERCENTAGE INCREASE OVER PREVIOUS YEAR

ACTIVITY	2000	2001	2002
Agriculture	11.7	-0.5	4.8
Mining	1.7	-0.8	5.0
Manufacturing Industry	5.5	5.2	2.8
Construction	1.5	-5.2	-14.6
Electric, Water, Gas	10.6	-1.8	5.6
Transp., Storage, Commun.	5.0	5.3	3.2
Trade, Restaurants, Hotels	3.7	3.0	2.8
Financial Institutions	2.3	3.1	2.2
Housing	3.1	3.9	3.9
Public Admin. Defense	19.8	8.7	7.2
Community Services	5.1	12.6	7.2

Source: BCH, July 18, 2003.

PRICES AND WAGES

19. The end of period Consumer Price Index (CPI) rose by 8.1 percent growth during 2002, slightly lower than the 8.8 percent growth registered in 2001, continuing the declining trend of the past four years. This result was in part obtained by the stability of the real exchange rate, the application of prudent monetary policy, an increased domestic supplies of basic grains due to increases in national production, helping to moderate food prices. There were also informal price controls for part of the year. Increases in gasoline prices and public transportation offset the favorable effect of the food index.

MONTHLY CPI FOR 2001 AND 2002

2001	END OF PERIOD	PCT CHANGE SAME MONTH YEAR EARLIER	2002	END OF PERIOD	PCT CHANGE SAME MONTH YEAR EARLIER
JAN	111.1	10.5	JAN	120.2	8.2
FEB	112.5	10.3	FEB	121.5	8.0
MAR	113.5	10.2	MAR	122.2	7.7
APR	114.2	9.5	APR	123.1	7.8
MAY	115.6	9.8	MAY	123.7	7.0
JUN	116.3	9.4	JUN	125.1	7.6
JUL	116.9	9.3	JUL	126.1	7.9
AUG	117.7	9.5	AUG	126.9	7.8
SEP	118.6	10.1	SEP	127.1	7.2
OCT	118.8	9.7	OCT	127.8	7.6
NOV	119.4	9.0	NOV	128.6	7.7
DEC	119.8	8.8	DEC	129.5	8.1

Source: BCH, data published July, 2003.

CONSUMER PRICE INDEX (CPI)

(December 1999=100)

	AVERAGE	PCT CHANGE
1997	77.9	20.2
1998	90.1	13.7
1999	100.0	11.6
2000	110.1	11.1
2001	119.8	9.6
2002	129.8	7.7
2003*	132.8	8.3

*Figures for 2003 are annualized to June
Source: BCH, data published July, 2003.

EMPLOYMENT

10. Employment data is collected once per year by the National Institute of Statistics (INE) through a survey conducted each September. The labor market was closely linked with the economic activity of the country, which can be observed in the stagnant behavior of the labor market. Employment rose by only 2.3 percent, mostly representing new labor joining the informal side of the market. There was also a 2.7 percent increase in the economically active population in September 2002 with respect to the same month in 2001. Even though there was a decrease observed in open unemployment, the increase of almost 3 percentage points of underemployment is significant. It demonstrates that the majority of the emerging labor force is entering the informal part of the economy.

11. The employment level in the textile industry showed a decrease for the second straight year. According to the Maquila Association, in 2002 this industry had a total of 107,398 direct jobs, which means that 2,685 jobs were lost with respect to 2001 (2.4 percent) as a result of the closing of 13 companies.

EMPLOYMENT INDICATORS

	September 2001			September 2002		
	Urb.	Rural	Total	Urb.	Rural	Total
Economically Active Population (Millions)	1.1	1.2	2.3	1.2	1.2	2.4
Working Pop. (Millions)	1.1	1.2	2.3	1.1	1.2	2.3
Open Unemployment (%)	5.5	2.4	3.9	5.9	1.8	3.8
Visible Sub-employment (%)	4.1	6.8	5.5	5.0	4.7	4.8
Invisible Sub-employment (%)	14.6	33.0	24.0	13.3	37.1	26.6
Economic Active Population with employment problems	24.2	42.2	33.4	24.2	43.6	35.2

UNEMPLOYMENT (PERCENT OF LABOR FORCE)

YEAR	PERCENT
1997 Sep.	4.3
1998 Sep.	3.0
1999 Sep.	3.3
2000	N/A
2001 Sep.	3.9
2002 Sep.	3.8

Source: National Institute of Statistics, September 2002 Survey.

12. The latest revision of the minimum wage (an increase of 12 percent for workers in small agriculture and approximately nine percent for most other workers) was implemented in spring 2003. New negotiations will start in November of this year for the 2004 increase.

BALANCE OF PAYMENTS

13. Net international reserves increased by USD 214.0

million in 2002 to reach USD 1.85 billion, as a result of the positive balance in the long-term capital account of the private sector and also due to large transfers, especially in net family remittances, which increased 32.1 percent compared to 2001.

14. The balance of the capital account was USD 187.8 million that represents a reduction of 18.6 percent from 2001 caused mainly by a reduction in direct investment and also long-term loans to the official sector.

15. The current account deficit in 2002 was USD 243.0 million, equivalent to 3.7 percent of GDP. The current account balance was a result of various factors: a reduction of 0.6 percent in imports, and the increase of 3.0 percent in overseas net transfers product of a bigger flow in family remittances that rose from USD 533.0 in 2001 to USD 704.3 million in 2002.

CONDENSED BALANCE OF PAYMENTS (USD MILLIONS)

	2000	2001	2002
TRADE BALANCE	-992.5	-1,222.6	-1,200.0
TRANSFERS	746.9	929.2	957.0
CURRENT ACCOUNT	-245.6	-293.4	-243.0
CAPITAL ACCOUNT	68.4	230.7	187.8
ERRORS AND OMISSIONS	123.5	62.4	118.7
GLOBAL BALANCE	-53.7	-0.3	63.5
INTERNATIONAL RESERVES			
(DECREASE +, INCREASE -)	-118.8	-147.3	-214.0

Source: BCH. Data published July 2003.

EXPORTS

16. Honduras' export value in 2002 was USD 1.37 billion, down by 1.5 percent from 2001. This decrease was due mainly to lower exports of banana, shrimp, soaps and detergents because of big price declines. In 2002, Honduras exported USD 665.2 million to the U.S., an amount equivalent to 48.5 percent of total exports.

EXPORTS (FOB, IN USD MILLIONS)

	TOTAL	TO U.S.	PCT OF TOTAL
1995	1,220.2	608.2	49.8
1996	1,316.0	612.4	46.5
1997	1,445.7	666.2	46.0
1998	1,549.9	686.0	44.2
1999	1,164.4	572.4	49.1
2000	1,436.0	604.2	45.4
2001	1,391.0	607.6	45.3
2002	1,370.7	665.2	48.5

Source: BCH. Data published July 2003.

Note: Figures do not include exports of apparel and other manufactures in the maquila sector.

BANANA EXPORTS

YEAR	REVENUE (USD MILLIONS)	VOLUME 40 LBS BOX	AVG. UNIT PRICE (USD)
1998	219.6	28,234	7.78
1999	38.1	6,750	5.64
2000	124.2	20,686	6.01
2001	204.2	25,487	8.01
2002	172.4	23,453	7.35

COFFEE EXPORTS

YEAR	REVENUE (USD MILL)	VOLUME 60KG BAGS	PRICE (USD)	VOLUME 46KG BAGS	PRICE (USD)
1998	429.8	2,330	184.49	3,039	141.44
1999	256.1	1,986	128.92	2,591	98.84
2000	339.4	2,903	116.90	3,787	89.63
2001	160.7	2,391	67.20	3,119	51.52
2002	182.5	2,711	67.32	3,536	51.61

OTHER IMPORTANT EXPORTS

WOOD

YEAR	REVENUE (USD MILL)	VOLUME (FT)	PRICE (USD)
1998	17.1	25,540	0.67
1999	27.5	38,168	0.72
2000	33.5	44,179	0.76

2001	33.9	44,026	0.77
2002	33.7	43,205	0.78

GOLD

YEAR	REVENUE (USD MILL)	VOLUME (OZ.T)	PRICE (USD)
1998	0.0	0.0	0.0
1999	0.0	0.0	0.0
2000	6.3	24	260.32
2001	63.8	244	261.68
2002	80.5	265	303.89

SILVER

YEAR	REVENUE (USD MILL)	VOLUME (OZ. T)	PRICE (USD)
1998	7.8	1,525	5.14
1999	5.4	1,085	4.94
2000	8.3	1,733	4.77
2001	7.9	1,846	4.26
2002	5.1	1,165	4.39

ZINC

YEAR	REVENUE (USD MILL)	VOLUME (LBS)	PRICE (USD)
1998	36.3	85,659	0.42
1999	50.2	94,786	0.53
2000	54.5	97,396	0.56
2001	38.5	101,334	0.38
2002	29.0	93,556	0.31

SUGAR

YEAR	REVENUE (USD MILL)	VOLUME (KILOS)	PRICE (USD)
1998	10.2	21,033	0.48
1999	5.3	10,509	0.50
2000	7.8	25,499	0.31
2001	30.4	160,083	0.19
2002	17.5	97,066	0.18

Source: BCH. Data published July 2003.

MAQUILA EXPORTS (USD MILLIONS)

	VALUE	PERC. GROWTH
1999	2,158.30	-
2000	2,361.80	9.43
2001	2,343.60	-0.77
2002	2,439.40	4.09
2003*	994.60	10.73

* (Figures for 2003 are up to May)

Source: Honduran Maquila Association

IMPORTS

17. In 2002 the value of imports FOB totaled USD 2.8 billion, a decrease of 0.1 percent over 2001. In 2002, Honduras imported USD 1.2 billion from the U.S. equivalent to 40.7 percent of total imports.

IMPORTS (CIF, in USD MILLIONS)

	TOTAL	FROM U.S	PCT OF TOTAL
1995	1,642.7	705.2	42.9
1996	1,840.0	857.6	46.6
1997	2,148.6	1,033.0	48.0
1998	2,534.8	1,177.3	46.4
1999	2,676.1	1,182.7	44.1
2000	2,854.6	1,220.2	42.7
2001	2,983.9	1,281.7	42.9
2002	2,976.3	1,213.1	40.7

Note: Figures do not include imported goods for the maquila sector.

FOREIGN DIRECT INVESTMENT

18. According to Central Bank data, FDI flows in Honduras in 2002 totaled USD 143 million. The U.S. continues to be the dominant source of FDI in Honduras with investment in 2002 reaching an estimated USD 54,500.0 million, or 38.1 percent of total FDI in Honduras. These totals do not include the accumulated investments in the maquila industry, which is considerable.

FOREIGN DIRECT INVESTMENT BY COUNTRY OF ORIGIN

(US THOUSANDS)

	1999	2000	2001	2002
United States	113,855.1	64,240.6	52,600.0	54,500.0
El Salvador	13,907.7	7,878.8	9,240.0	11,798.0
Guatemala	3,354.5	11,084.8	10,847.0	6,046.0
Costa Rica	6,442.5	21,186.6	24,106.6	9,831.5
Panama	19,474.8	15,099.7	18,088.0	8,795.0
Mexico	4,612.9	-138.8	207.0	223.0
Spain	5,884.3	7,784.5	9,784.5	5,390.0
United Kingdom	2,567.4	14,956.7	4,289.0	4,790.0
Switzerland	6,948.1	-4,050.9	-1,250.0	543.0
Italy	-3,606.0	13,624.8	7,624.0	6,175.0
Germany	156.7	218.6	188.6	219.0
Japan	124.0	0.0	1,150.6	1,188.2
Canada	55,099.6	36,057.9	15,057.0	18,115.0
Other Countries	8,515.6	94,056.3	43,068.9	15,246.9
Total	237,337.2	281,999.6	195,001.2	142,860.6

ACCUMULATED INVESTMENT IN TEXTILE INDUSTRY 2001

(Information for 2002 is not available yet)

	AMOUNT (USD MILLIONS)	PCT OF TOTAL
Honduras	670.1	47.1
U.S	370.2	26.0
Korea	145.5	10.2
Hong Kong	43.8	3.1
Taiwn	55.2	3.9
China	33.8	2.5
Singapore	18.8	1.3
Canada	49.2	3.5
Colombia	2.0	.1
Barbados	.1	0.0
Co-investment	32.9	2.3
1,421.6	100.0	
		Total

Source: BCH. Data published July 2003.

INTEREST RATES

19. In 2002, nominal interest rates declined slightly, due in part to the Central Bank's monetary policy, which included the elimination of the obligatory investment requirement to the financial system, providing more liquidity and resources for the productive sector.

20. In December 2002, the average nominal interest rate in local currency for new loans was 20.9 percent and for long term deposits was 12 percent, which represents a reduction of 1.3 and 2.1 percentage points respectively compared to the end of 2001 averages.

21. The average nominal interest rates on new operations in foreign currency - loans and deposits at the end of 2002 - were 9.4 percent and 2.6 percent respectively which means a reduction of 2.5 and 2.1 percentage points compared to the end of 2001 averages. This decrease is directly related to the continued reduction of interest rates internationally.

ANNUAL INTEREST RATES -FINANCIAL SYSTEM

(Weighted averages, local currency)

YEAR	LENDING	DEPOSIT
1998	30.80	16.00
1999	29.53	15.04
2000	24.67	12.23
2001	23.23	11.76
2002		
JAN	23.20	11.44
FEB	23.16	11.36
MAR	23.18	11.35
APR	23.18	11.13
MAY	23.02	11.13

JUN	23.05	11.03
JUL	22.90	10.52
AUG	22.74	10.15
SEP	22.54	10.02
OCT	22.21	9.86
NOV	22.22	9.78
DEC	22.11	9.57

Source: BCH. Data Published July 2003.

NET DOMESTIC CREDIT

22. Domestic credit flows of the financial system (private and public sectors), increased by seven percent with respect to 2001, closing at Lps. 31.4 billion (USD 1.85 billion). Credit to the public sector declined by 10 percent, while loans for the private sector grew by eight percent. In 2002, the majority of loans from banks to the private sector were for real estate investments (23 percent), followed by manufacturing industry (15 percent), domestic trade and consumption (13 percent), and agriculture and services (10 percent).

NET INTERNAL CREDIT (MILLIONS OF LEMPIRAS)

	2000	2001	2002	PERC. CHANGE 2001 2002	PERC. CHANGE
INT.CREDIT	25,025.9	29,412.2	31,422.6	18.0	7.0
PUBLIC SEC.	11,358.4	-11,395.3	-12,499.8	0.0	-10.0
PRIVATE SEC.	36,384.3	40,807.4	43,922.4	12.0	8.0

MONEY SUPPLY

23. Money supply growth in 2002 was 11.3 percent, 1.6 percent less than December of 2001. Local currency deposits, foreign currency deposits and circulating currency, increased by 11.9 percent, 11.3 percent and 7.2 percent respectively.

MONETARY AND CREDIT INDICATORS

(PERCENTAGE GROWTH, DEC. OF EACH YEAR)

	2000	2001	2002
DOMESTIC CREDIT	21.8	15.8	5.1
PRIVATE SECTOR	12.2	10.7	6.1
LOCAL CURRENCY	14.7	13.4	6.8
FOREIGN CURRENCY	5.4	2.9	4.0
PUBLIC SECTOR	4.6	0.6	-8.8
CENTRAL GOVERNMENT	20.6	35.6	5.7
REST OF PUBLIC SEC.	-21.3	-36.7	-16.1
MONEY SUPPLY	17.1	12.9	11.3
IN LOCAL CURRENCY	16.6	8.3	11.3
CURRENCY	0.4	9.3	7.2
DEPOSITS	19.7	8.1	11.9
IN FOREIGN CURRENCY	18.6	26.3	11.3

MONETARY INDICATORS

(MILLIONS OF LEMPIRAS, DEC. OF EACH YEAR)

	2000	2001	2002	PCT CHG 2001	PCT CHG 2002
MONEY (M1)	10,942.9	11,514.8	13,191.6	5.0	15.0
MONEY (M2)	33,482.0	36,314.1	40,444.9	8.0	11.0
MONEY (M3)	43,924.5	50,115.3	56,733.0	14.0	13.0

EXCHANGE RATE

24. The annual depreciation of the Lempira with respect to the dollar in 2002 was 6.3 percent, changing from Lps. 15.9197 to the dollar at the end of 2001 to Lps. 16.9233 to the dollar at the end of 2002.

ANNUAL AND MONTHLY EXCHANGE RATES (BANK SELL RATE, LEMPIRAS/USD)

	END OF PERIOD	YEAR AVERAGE	ANNUAL DEVALUATION (PERCENT)
1998	13.92	13.54	5.4
1999	14.66	14.35	5.0
2000	15.31	15.01	4.39

2001	16.05	15.65	5.14
2002	16.92	16.47	6.30

----- PUBLIC SECTOR FINANCES -----

125. The Central Government fiscal deficit at the end of 2002 was Lps. 5.849 billion (USD 345.7 million), equivalent to 5.4 percent of GDP, lower than the 6 percent observed in 2001.

126. The 2002 central government deficit was mainly financed through domestic financing (66.2 percent of total) compared to foreign financing (33.8 percent). Regarding domestic financing, it is important to point out that most of the resources were obtained through transfers from Hondutel (the State-owned telephone company) of Lps. 2.485 billion (USD 146.8 million) equivalent to almost 60 percent of the required resources. This source of funds is now basically exhausted.

127. During 2002, tax collection increased to Lps. 17.3 billion (USD 1.021 billion) equivalent to 16.0 percent of GDP, slightly lower than the 16.2 percent reached in 2001. Tax income increased by 7.4 percent (in nominal terms) with respect to 2001, compared to a 10.0 percent increase in 2000. The decrease in tax income occurred primarily in the first semester of 2002 and was largely counterbalanced in the second semester as a result of the administrative measurements adopted by the application of the new law of Financial Equilibrium approved by Congress in May 2002. Part of the declines in the first semester were attributed to falling income from oil taxes due to oil prices and part from scheduled declines in some import duties as a result of trade and regional integration agreements.

128. Total expenditures of the Central Government were Lps. 26.773 billion (USD 1.6 billion) which were 4 percent higher than to 2001, due to the increase of 10.7 percent in current expenditures and a reduction of 12.6 percent in capital expenditures. The increase in current expenditures was due to a 16.7 percent increase in salaries (primarily teachers). There was a decrease of 4.7 percent in goods and services expenditures as a result of the measures taken by the government to control public sector expenditures, and a law approved by Congress in May 2002 to control expenditures.

CENTRAL GOVERNMENT FINANCIAL ACCOUNT

(MILLIONS OF LEMPIRAS)

	2000	2001	2002*
TOTAL INCOME	16,753.0	19,752.0	20,924.1
CURRENT INCOME	15,861.5	17,981.6	19,785.8
TAX INCOME	14,620.3	16,083.1	17,278.2
CURRENT EXPENDIT.	15,559.0	18,390.4	20,355.7
EXPENDITURES	12,687.3	14,830.3	16,282.4
SALARIES	7,943.0	9,966.0	11,628.1
NET INTERESTS	2,306.4	2,128.9	2,046.9
SAVINGS	302.5	-408.8	-569.9
NET TOTAL EXPENDIT.	21,769.2	25,734.8	26,773.6
SAVINGS (+), DEFICIT (-)	-5,016.2	-5,982.8	-5,849.5
FINANCING	5,016.2	5,982.8	5,849.5
NET FOREIGN FINANCE	2,296.9	3,394.5	1,978.6
NET DOMESTIC FINANCE	2,719.3	2,588.3	3,870.9

(*Preliminary figures)

Source: Ministry of Finance

Exchange rate Dec. 2002 Lps. 16.92 to USD 1.00

----- FOREIGN DEBT -----

129. Honduras's foreign debt, which is held by the official sector, Central Bank and private sector (financial and non-financial) in the year 2002, was USD 4.963 billion, up 3.2 percent (USD 155.7 million) from 2001; mainly due to the U.S. dollar devaluation with respect to other currencies that are the components of the baskets of the international lending institutions, since net flows (reimbursements minus capital payments) increased only by USD 10.2 million. The relation of the total debt to the GDP in 2002 was 75.6 percent, very similar to 75.1 percent in 2001.

130. Foreign debt service in 2002 was USD 583.5 million, USD 466.0 million of capital and USD 117.5 million in interest.

In 2002, under the HIPC initiative, Honduras was scheduled to receive total debt relief of USD 48.8 million. Of this relief, USD 35.5 million are resources to be used for the financing of the Poverty Reduction Strategy. Honduras has not yet reached the HIPC completion point.

HONDURAN FOREIGN DEBT (IN USD MILLIONS)

TYPE OF CREDITOR	PERC.	2000	2001	2002
MULTILATERAL	63.7	3,069.4	3,118.3	3,162.2
BILATERAL	30.0	1,357.1	1,414.6	1,487.5
COMERCIAL	6.3	279.5	275.1	314.0
TOTAL	100.0	4,706.0	4,808.0	4,963.7

TOURISM

31. Tourism is one of the priority sectors for the GOH, which hopes it will generate a substantial number of jobs and economic growth. The three project goals are the Caribbean Creation, a Mayan Route and Nature Adventure. Each of these projects contain several smaller clusters of projects. The Caribbean Creation involves encouraging tourism development in the Bay Islands and the northern coast of Honduras, focusing on beaches and reefs. The goal is to increase to one million tourists and USD 500 million income in foreign exchange. The second project is a complete Mayan Route from Copan to other archeological sites and will involve visitors from cruise ships flying to Copan. The third project is marketing and developing eco-tourism on the north shore, national parks and in the Copan Ruins area.

	TOTAL VISITORS (THOUSANDS)	FOREIGN EXCHANGE INCOME (USD MILLION)	FOREIGN EXCHANGE OUTFLOW (USD MILLION)
1999	428.1	195.0	94.0
2000	688.4	259.8	106.7
2001	672.0	274.6	156.6
2002	788.1	341.5	N/A

Source: Ministry of Tourism.

PALMER